



## Sunrise

Wednesday, 08 February 2017

### Rates: Looking for EMU bond markets and risk sentiment for guidance

Today's eco calendar is empty apart from heavy supply (Germany, Portugal, Finland, US). Investors' focus will remain on EMU bond markets. Yesterday tensions eased, but we don't take that for granted. The short term technical picture of the Bund improved and the US Note future is near key resistance (125-09/16).

### Currencies: Sterling rebounds on hawkish BoE comments and 'Brexit compromise'

Yesterday, the dollar gained modestly against the euro and the yen as risk sentiment improved. Today, the eco calendar is very thin. Sterling profits from hawkish comments from BoE's Forbes and as the UK government agreed on the Parliamentary approval of the final Brexit deal

### Calendar

## Headlines

- **US equities ended** around 0.2% higher with the S&P 500 underperforming (flat). **Asian stock markets** trade mixed with Japan outperforming on the back of yesterday's yen weakness.
- **Japan attained its second-biggest current account surplus on record in 2016**, just days before the US and Japanese leaders meet for talks with trade surpluses and currency valuations expected to be high on the agenda.
- **Britain will not seek further talks with the EU if parliament rejects the exit deal it reaches**, the government said, as ministers defeated attempts to give lawmakers more say on the terms of the final agreement.
- The **RBNZ** will undertake a cost-benefit analysis of imposing debt-to-income limits aimed at **cooling down a red-hot housing market**, NZ's FM said, though it is unlikely DTI measures will be used this year.
- **Bundesbank President Weidmann** said that Germans mustn't forget that they benefit from low interest rates that make jobs safer and boost government tax revenue. **The ECB is not yet at a point where it can end its expansionary policy.**
- **The IMF warned that Greece once again risks a eurozone exit** amid stalled bailout talks, sending the clearest signal yet the emergency lender isn't likely to soon rejoin Europe's failed efforts to fix the debt-weary nation.
- **Crude oil prices** dropped \$1.5/b yesterday after a private report (API) showed that **oil inventories spiked last week** and as Norwegian energy group **Statoil booked a \$2.3B impairment** due to reduced LT expectations for oil prices.
- **Today's eco calendar** is empty apart from auctions in Portugal, Germany, Finland and the US..

S&P	↗
Eurostoxx 50	↗
Nikkei	↗
Oil	↘
CRB	↗
Gold	↗
2 yr US	↗
10 yr US	↗
2yr DE	↗
10 yr DE	↗
EUR/USD	↗
USD/JPY	↗
EUR/GBP	↗

# Rates

## Tensions on EMU bond markets ease, apart from Greece

Yesterday, global core bonds initially lost part of Monday's risk-off gains, as risk sentiment on EMU bond markets didn't deteriorate further. Weak German production data and a slightly smaller than expected US trade deficit, the only data on the agenda, couldn't influence trading. In mid US session, **US Treasuries and Bunds rallied higher without obvious reasons**. Admittedly, oil prices dropped lower and equities fell after opening gains, but it is unclear why that should have been bad for peripherals or why that should have caused an underperformance of the short end of the US Treasury curve especially ahead of today's 10-yr Note auction. The **solid 3-yr Note auction** pushed core bonds to the peak of the day, before ending with small daily gains.

In a daily perspective, the belly of the German yield curve outperformed with yields 0.8 to 2 bps lower. The US yield curve flattened with yield changes ranging between +1.6 bps (2-yr) and -2.9 bps (30-yr). **On intra-EMU bond markets, 10-yr yield spreads were nearly unchanged (+2 to -2 bps) with Greece underperforming (+15 bps). The front end of the Greek curve suffered most with the curve inverting further.** Greece has big redemption dates in July, but the Troika are still bickering over the conditions for the IMF's involvement in the 3rd bailout programme.

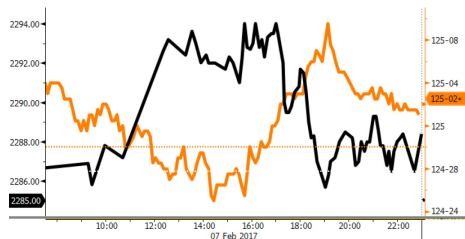
**Today's US and EMU eco calendars are devoid of market moving data releases.** The UK House of Commons completes its debate on the art. 50 bill, which normally shouldn't bring surprises. Portugal, Germany and US hold auctions (see below).

Core bonds initially lose ground on restored calm on peripheral markets

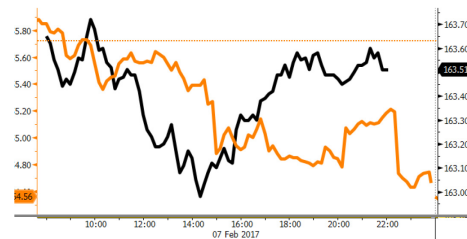
Later on, core bonds rally and peripherals lag

	US yield	-1d
2	1,17	0,02
5	1,85	0,02
10	2,40	0,00
30	3,02	-0,03

	DE yield	-1d
2	-0,78	0,00
5	-0,41	-0,01
10	0,35	-0,02
30	1,14	0,00



T-note future (black) and S&P future (orange) (intraday): Timing of equity moves not perfect to explain afternoon bond rally.



Bund (black) & Brent oil (orange): Price action suggests oil played no important role

## Heavy supply

R2	164,90	-1d
R1	164,45	
<b>BUND</b>	<b>163,38</b>	<b>-0,18</b>
S1	160,72	
S2	159,91	

**The German Finanzagentur taps the on the run 10-yr Bund (€3B 0.25% Feb2027).** The Bund didn't cheapen in the run-up to the auction in ASW-spread terms. On the contrary, the recent risk-off bout made it more expensive. However, compared to surrounding bonds on the German yield curve, the Feb2027 DBR is rather cheap. Total bids at the previous 4 Bund auctions averaged €5.14B. Despite the relatively low amount on offer (€3B), we expect plain vanilla demand at best. **The Portuguese Tesouraria sells the on the run (2.2% Oct2022) and off the run (5.65% Feb2024) OT's for €1-1.25B.** Both bonds cheapened in ASW spread terms going into the auction and the Feb2024 OT is the cheapest bond on the Portuguese curve. We expect the auction to go well. **The Finnish debt agency announced the launch of two new RFGB's via syndication in the near future (likely today): 5-yr RFGB (Apr2022) and 30-yr RFGB (Apr2047).**

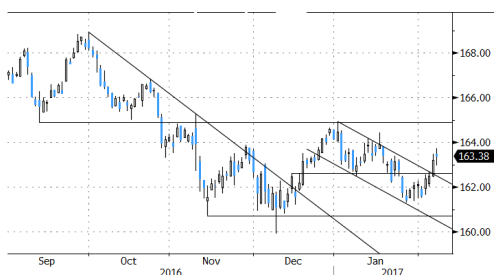
**The US Treasury started its mid-month refinancing operation with a solid \$24B 3-yr Note auction.** The bid cover was ok and the auction stopped through the 1:00 PM bid side. Bidding details showed strong buy-side demand. **Today, the Treasury continues with a \$23B 10-yr Note auction.** Currently, the WI trades around 2.37%.

## Eyes on EMU bond markets amid empty calendar

**Overnight,** Asian stock markets trade mixed with Japan outperforming. The US Note future and Brent crude give no indication for the start of European trading. We expect a neutral start for the Bund.

**Today's eco calendar** is empty apart from heavy supply. **The main trading theme will be developments on EMU bond markets.** Monday's spread widening (see above) caused a global safe haven bid, but was partly reversed yesterday. Stress over French elections, the Italian financial sector and the Greek bailout take the upper hand. **The short term technical picture of the Bund improved after the break above 162.49/62, suggesting more upside towards 164.90. The US Note future approaches the key 125-09/16 resistance area.**

**Longer term,** we hold our negative views on both German Bund and US Note future on the back of accelerating growth and inflation. US investors still have to adapt to the Fed's 2017 rate hike scenario (3 hikes) while European investors might face another "recalibration" of the ECB's APP-programme in H2 2017.



German Bund: short term picture improves as stress on EMU bond markets triggers safe haven bid



US Note future: 125-09/16 needs to prove its "unbreakable" status again

# Currencies

## Dollar looking for a bottom

*Dollar rebounded yesterday, but rebound slows later on as equities ease*

R2	1,1145	-1d
R1	1,0874	
<b>EUR/USD</b>	1,0668	-0,0027
S1	1,0341	
S2	1,0000	

On Tuesday, the European risk-off trade that dominated Monday's session faded. In a session devoid of important data, this was enough to put a short term floor under the dollar. USD/JPY rebounded from a correction low in the 111.60 area and settled in 112 big figure during the European hours. However, the pair lost again ground in US dealings as equities couldn't maintain the opening gains. USD/JPY closed the session at 112.39. EUR/USD extended its decline. Contrary to Monday, USD strength rather than euro weakness prevailed. The dollar also lost momentum against the euro later on and finished the session at 1.0683.

**Overnight**, Asian equities trade mixed. The rise of the dollar is positive for Japan. Chinese equity markets probably also still react to the **Chinese forex reserve statistics showed a decline of reserves below \$3 trillion**. China weakened the yuan reference rate to USD/CNY 6.8849 and the PBOC again tightened monetary conditions as it skipped its reverse rate operations. The CNH and the CNY are losing marginal ground. The dollar shows no clear trend. USD/JPY stands at 112.25. EUR/USD at 1.0675.

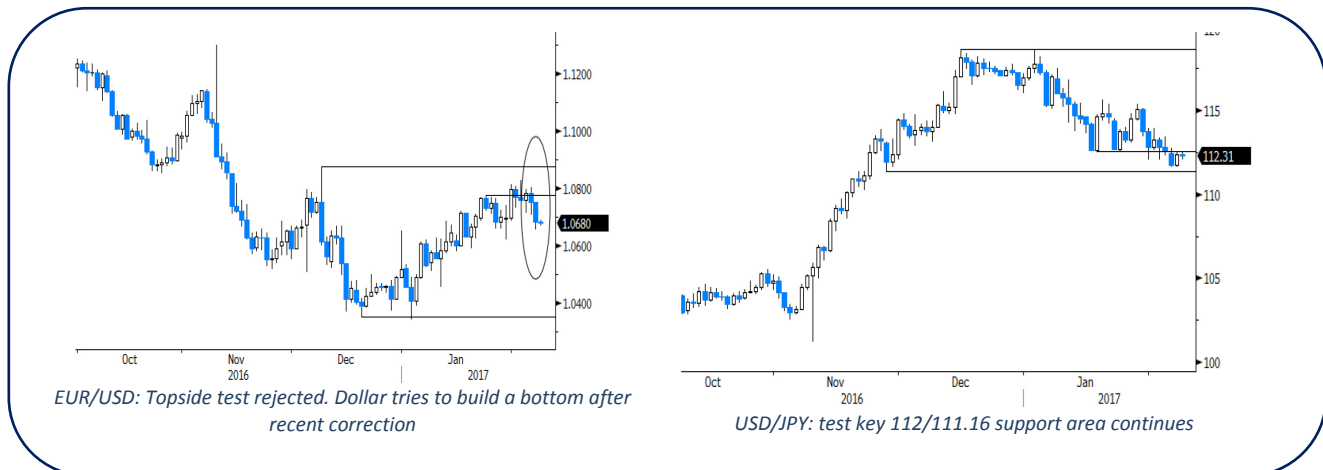
**Today**, US and EMU eco calendars are devoid of market moving data. We are also not aware of any important events. **So technical considerations and global risk sentiment will guide currency trading**. Sentiment on risk is a bit fragile in Asia this morning, but not enough to draw conclusion for European and US trading. **So we expect a calm start for trading in the major USD cross. The USD price action over the previous days showed a mixed picture**. The topside in EUR/USD looks rather well protected as sentiment on the euro is fragile due to political risks in the region. At the same time, **USD/JPY struggles to hold above the 112/111.16 support area**. The jury is still out whether this area will hold. A retest/break is possible if risk sentiment would worsen again. Yen traders also look to **the meeting between PM Abe and President Trump later this week, as the yen will likely debated**. This might be slightly yen-supportive.

*Dollar shows no clear trend in Asia*

*PBOC tightens liquidity conditions to prevent further Yuan outflows*

*Eco calendar empty*

*Sentiment on risk to set the tone for USD trading*



**Global context.** The dollar is in a corrective downtrend against most majors since the start of January. The USD rally on the Trump reflation trade petered out. Interest rate differentials in favour of the dollar narrowed. **Trump politics/communication became a sources of uncertainty, also for the dollar.** A break above EUR/USD 1.0874 (next resistance) would question the short-term USD positive outlook. **At some point, absolute interest rate support should provide a USD floor, especially as the Fed is expected to continue its policy normalisation. Price action earlier this week showed that that euro weakness might still be a factor too. As we see the 1.0874 resistance is solid, a sell EUR/USD on upticks might be considered.** USD/JPY is trading well off the post-Trump highs (118.60/66) and dropped (temporary?) below the 112 support. USD/JPY 111.16 (38% retracement of the 99.02/118.66 rally) is the next key support. A break below this area is clearly USD negative.

R2	0,9047	-1d
R1	0,8881	
EUR/GBP	0,8538	-0,0058
S1	0,8471	
S2	0,8304	

### Sterling gain on BoE comments and Brexit compromise

Yesterday, sterling initially traded with a negative bias on soft BRC retail sales, below consensus Halifax house prices and lingering uncertainty on the Brexit debate in Parliament. EUR/GBP returned to the 0.8640 area even as EUR/USD traded with a negative bias. **In the afternoon, sentiment on sterling improved for the better.** BoE's Forbes said that *"If the real economy remains solid and the pickup in the nominal data continues, this could soon suggest an increase in bank rate."* Sterling rebounded further on Brexit headlines. Cable finished the session at 1.2501. EUR/GBP tumbled below 0.86 and finished the session at 0.8538.

**Overnight,** a survey of the Recruitment and Employment Confederation and IHS Markit indicated rising wage pressures. Sterling is holding near yesterday's highs against the dollar and the euro. No eco releases are scheduled. **Yesterday, sterling rebounded as the UK Parliament was allowed to vote on the final Brexit agreement, but there will be no renegotiation if the proposed deal is rejected.** At this stage, we don't see this 'agreement' as a reason for further sterling strength. **Last week's balanced approach of the BoE capped the topside of sterling and helped a cautious bottoming out process for EUR/GBP. Yesterday's comments from Forbes supported sterling, but we don't think they change the broader picture on the BoE policy approach.** The EUR/GBP 0.8450 support looks again a bit better protected. The sterling momentum is waning a bit, but euro weakness might still be an issue. **A cautious buy-on-dips approach is preferred.** The cable price action suggests that further cable gains are difficult too.



EUR/GBP still struggles to rebound off the 0.8450 support area



GBP/USD topside test rejected, but no further losses.

# Calendar

Wednesday, 7 December		Consensus	Previous
<b>US</b>			
13:00	MBA Mortgage Applications	--	-9.4%
16:00	JOLTS Job Openings (Oct)	5445	5486
21:00	Consumer Credit (Oct)	\$18.500b	\$19.292b
<b>Canada</b>			
16:00	Bank of Canada Rate Decision	0.50%	0.50%
<b>Japan</b>			
06:00	Leading Index CI (Oct P)	101.4	100.3
<b>Australia</b>			
01:30	GDP SA QoQ / YoY (3Q)	0.2%/2.5%	0.5%/3.3%
<b>UK</b>			
09:30	Halifax House Prices MoM / 3Mths/Year (Nov)	0.2%/5.9%	1.4%/5.2%
10:30	Industrial Production MoM / YoY (Oct)	0.2%/0.5%	-0.4%/0.3%
10:30	Manufacturing Production MoM / YoY (Oct)	0.2%/0.7%	0.6%/0.2%
16:00	NIESR GDP Estimate (Nov)	0.4%	0.4%
<b>Germany</b>			
08:00	Industrial Production SA MoM / WDA YoY (Oct)	0.8%/1.6%	-1.8%/1.2%
<b>Italy</b>			
10:00	Unemployment Rate Quarterly (3Q)	11.6%	11.5%
<b>Spain</b>			
09:00	INE House Price Index QoQ / YoY (3Q)	--/--	1.8%/3.9%
<b>Norway</b>			
08:00	Industrial Production MoM / WDA YoY (Oct)	--/--	-5.6%/-12.4%

10-year	td	-1d	2-year	td	-1d	Stocks	td	-1d	
US	2,40	0,00	US	1,17	0,02	DOW	20090,29	37,87	
DE	0,35	-0,02	DE	-0,78	0,00	NASDAQ	5674,217	10,67	
BE	1,01	-0,01	BE	-0,53	0,01	NIKKEI	19007,6	96,82	
UK	1,29	-0,03	UK	0,09	0,00	DAX	11549,44	39,60	
JP	0,09	0,00	JP	-0,21	0,02	DJ euro-50	3235,71	-2,60	
IRS	EUR	USD	GBP	EUR	-1d	-2d	USD	td	-1d
3y	-0,06	1,68	0,73	Eonia	-0,3490	0,0020	Libor-1	0,7753	-0,0003
5y	0,16	1,95	0,93	Euribor-1	-0,3730	0,0000	Libor-3	1,0384	0,0044
10y	0,78	2,33	1,34	Euribor-3	-0,3280	0,0000	Libor-6	1,3441	-0,0058
				Euribor-6	-0,2440	0,0000			
Currencies	td	-1d	Currencies	td	-1d	Commodities	td	-1d	
EUR/USD	1,0668	-0,0027	EUR/JPY	119,91	0,27	CRB	191,37	-0,79	
USD/JPY	112,41	0,55	EUR/GBP	0,8538	-0,0058	Gold	1233,10	-2,50	
GBP/USD	1,2495	0,0053	EUR/CHF	1,0656	0,0009	Brent	54,82	-1,04	
AUD/USD	0,7631	-0,0028	EUR/SEK	9,4808	0,0041				
USD/CAD	1,3183	0,0062	EUR/NOK	8,8853	0,0254				

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